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Forest Products

Forest Products Annual Report

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Report Highlights:

Forest product imports totaled about US\$13 million during the first nine months of 1998, with the U.S. market share at only 1.2% (US\$216,000). Fiberboard imports increased to US\$170,000 or 8.5% of the total value of US\$2 million during the same period (Jan- Sept.). The new free trade agreement with Turkey and lower duties for the EU should increase competition on the veneer market and the particleboard, fiberboard and plywood market, respectively. U.S. "board" exports should grow as incomes and furniture production continue to increase.

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Executive Summary

Output of large size logs, lumber and veneer in 1998 decreased 1%, 2% and 25%, respectively, as a result of the ongoing privatization of forestry land and farms as well as problems with pests. At the same time, log, lumber, and veneer consumption has grown to satisfy demand of the furniture and construction sectors. These sectors have begun to recover in 1998 due to economic stabilization and gradually increasing consumer income.

According to the trade (CY data is not available yet), imports of forest products in 1998 increased to meet the demand for higher quality product. Although not exactly comparable as trade data collection has changed, it appears veneer imports have increased significantly. During the first nine months of 1998 (US\$1.6 million) veneer imports were 220% higher than 1997 annual imports (US\$0.5 million).

Bulgarian imports from the United States (Bulgarian data) during the first nine months of 1998 equaled US\$216,000 and consisted of softwood logs (13 MT, US\$1000); lumber (42 MT, US\$21,000 of which 27 MT softwood lumber and 15 MT hardwood lumber); particle board (41 MT, US\$15,000), fiberboard (385 MT, US\$170,000), plywood (6 MT, US\$5,000); and other boards (HS#4413) (25 MT, US\$4,000). Although not significant in tonnage and value, this is considerable higher compared to those years in which the United States exported negligible amounts.

The major competitors of the United States are Yugoslavia (logs), Russia, Ukraine, Macedonia (lumber), Cote D'Ivoire and Turkey (veneer), and Greece (particle board, fiberboard, plywood). In most cases, these countries' proximity allows importers more flexibility in their purchasing requirements. That is, most processing enterprises can't afford long term planning and regular shipments due to irregular market demand.

Russia will likely be the major supplier of softwood logs in 1999 for the construction sector. However, for the furniture sector, the U.S. has opportunities for shipping temperate hardwood lumber, veneer, plywood, particleboard and fiberboard.

There are some niche opportunities for imported materials for wood frame houses as well as "kit" houses. The major constraints are the higher price of U.S. products and transportation cost as well as import preferences for EU and CEFTA countries.

Production

Forestry Situation/Outlook

In 1998, softwood forestry area continued to decrease. Hardwood forestry area increased due to better management as demand for hardwood roundwood and lumber continues to increase. This trend should continue over the next 3 to 5 years.

The greatest problem in 1998 was pest infestation which led to defoliation of 62,000 HA of hardwood forests in the area of Burgas (2,000,000 HA unofficial data). According to experts, this is the largest infestation over the last ten years.

Although there is no official data yet, the 1998 annual forest harvest is expected to be significantly reduced since cuttings decreased due to privatization (preliminary data is 5,082,900 cubic meters in 1998 compared to 5,871,600 cub.m. in 1997).

Forestry Policy

During 1998, the GOB initiated forestry restitution/privatization. The process should continue in 1999 and 2000. The total forest area subject to restitution is 3.6 million HA of which 600,000 HA should be restituted to private persons and the rest to municipalities, church etc. Currently, 1.4 million persons are ex-owners of forestry land - only 53 individuals own plots exceeding 50 HA. Owners who can not receive their land in original boundaries will be compensated by the State through vouchers or by forest land located in a different place. The privatization process could continue to lower cutting in 1999.

In 1998, the MinAg approved a Decree to evaluate the value of forestry land. The purpose of the Decree was for compensatory purposes and not for determining market price. According to the Decree, forestry land varies from 55 million Bleva (US\$33,000) per hectare of softwood to 13 million Bleva (US\$8,000) per hectare of poplar.

In 1999, the GOB decreed that licenses are required for cutting timber and higher fees are being imposed to improved forestry management.

Solid Wood Products Situation

Production of roundwood (logs) in 1998 was slightly lower than in 1997, and the major portion of it was small and medium size logs suitable for cellulose-paper plants, production of packaging and furniture parts, and construction.

Larger size logs were limited, therefore, production of lumber and veneer was lower. Production of other wood products such as plywood, wooden windows and doors, parquet and packaging increased due to higher demand. The only exception was lower particle board production. Traditionally, hardwood products, especially lumber, are more demanded than softwood.

Official annual production and trade data for calendar year 1998 is not available yet. Please, see estimated production data for 1998 based on actual data for the first nine months of 1998 in tables #2 and #4.

Prices of lumber in Bleva per cub.m without VAT (20%)- September 1998:

Softwood boards - size 25/120/4000 - 250,000/US\$152
Softwood boards - size 30/120/4000 - 230,000/US\$139
Softwood boards - size 50/120/4000 - 250,000/US\$152
Softwood boards - size 80/120/5000 - 230,000/US\$139
Softwood boards - size 100/120/5000 - 250,000/US\$152
Softwood beams - size 200/220/5000 - 140,000/US\$85

Note: The exchange rate in September 1998, was 1,650 Bleva average for one U.S. dollar.

Trade

Exports

Bulgaria continued to export logs and lumber to Turkey and Greece and recently to Italy and Macedonia, veneer to Greece and Syria, particle boards to Greece, Macedonia and Egypt, and plywood to Greece. According to the MinAg, exports are still about 5% of all harvested forest products in the country.

Imports

No annual 1998 data is available to date. Please, see table #4 for import data for the first nine months of 1998.

It is interesting to note that there were no U.S. exports of veneer in 1998. According to the trade, U.S. veneer is exported to Bulgaria but through Canada, Germany, and Turkey. The largest importer of veneer including U.S. veneer is in the process of privatization and sharply reduced imports, therefore, mainly small and medium sized companies are currently actively importing.

Tariff Regime

The VAT on imports generally was lowered to 20% in 1999. There are no import quotas for wood products. Based on the Bilateral Trade Agreements between Bulgaria and the EU and EFTA, CEFTA agreement and the free trade agreement with Turkey, lowered import duties are imposed for commodities originating from those countries for 1999. A complete list of these duties is available at AgOffice Sofia upon request.

The Tariff Code and import duties were changed in the beginning of 1999 as follows:

HS# 4401	Firewood	0%
HS# 4403	Logs	0%
HS# 4407	Lumber	5%
HS# 4408	Veneer	5%
HS# 4409	Parquet and others	15%
HS# 4410	Particle boards and other type of boards	25%
HS# 4411	Fiberboard	25%
HS# 4412	Plywood	15%
HS# 4414	Frames	20%
HS# 4415	Packaging	25%

Exporters of logs (HS#4403) and fuelwood (HS# 440110000) must receive a license issued by the MinAg.

Export taxes are paid for exports of logs and lumber as follows:

HS#	Export tax in Bleva/cub.m.
4403 Logs	
poplar	25,000
walnut	400,000
the rest	35,000
4407 Lumber	
Boards all species except for walnut	10,000
walnut	300,000

Market Segment Analysis

According to the latest MinAg data, total consumption of forest products in 1998 was about 4.5 million cub.m. of which 1.4 million cub.m. was used mainly as firewood and the remaining 3.1 million cub.m. for industrial processing. About 67% of industrial consumption was hardwood and 34% softwood.

Construction Sector

According to the latest data, the private share in the construction sector reached 90% in 1998 compared to 75% in 1997 due to a decline in state housing starts and higher demand for privately built dwellings. In 1998, total dwelling starts were 10,253 which is 37% more than in 1997 (7,452 dwellings). Growing demand for new dwellings is a result of overall economic/financial stabilization and gradually increasing average income which allowed middle and high income people to plan and invest in long term projects. Family houses are still a privilege to the highest income consumers due to the high price of construction and land in the suburbs and high maintenance cost.

Lumber used in new dwellings is mainly of local origin. Lately, there has been an increasing demand for imported wooden doors and windows and sidings.

Wood frame housing

The demand for wood based (Scandinavian as well as U.S. style) housing in 1998 increased mainly due to developing tourism. Currently, there are five companies in this business. However, only one of the companies is building houses using U.S. technology in the Sofia municipality.

One private company has built five wood frame houses over the last year and a half using local wood products for construction. Materials such as shingles, pipes, electric supplies etc. were imported from the United States and Canada. Due to growing demand driven by consumers, the company plans to build another eight houses in 1999 on one plot of land in Sofia as a small housing development. The company sells houses at an average US\$200/sq.m. which is very competitive with conventional brick construction. Currently, the company is extending its contacts with U.S. exporters and plans to import U.S. wood products or "kit" wood frame houses if the terms and prices are competitive. The company is also looking for a partner for a joint venture.

Another two private companies produce and build prefabricated wood frame houses using only Bulgarian wood and technology. One of the companies has gained a good market position in Cyprus and about 150 houses were exported there in 1998.

The success of these three private companies shows that niche market opportunities may be available to U.S. exporters. The market obstacle for U.S. exports, however, is the relatively high price of U.S. wood frame houses compared to the domestic average price which is about US\$200 - US\$250/square meter for traditional brick and concrete technology excluding the land,

compared to US\$250 - US\$300 in 1997.

According to 1998 data, there are about 1,000 active land slide areas concentrated mainly along the Black Sea coast. Construction at these places requires special permission by the Ministry of Construction. More likely only very "light" construction similar to wood frame houses will be allowed to be built. Therefore, this could provide another niche market in the resort areas as familiarity increases with these type of construction.

Furniture sector

In 1998, the furniture sector experienced revitalization after the stagnation in 1996/1997. Preliminary data for 1998 (table #3) shows higher production for all types of furniture. According to industry sources, furniture exports during Jan-Oct. 1998 were, reportedly, 5% higher than in 1997. Therefore, increased quantities of higher quality domestic and imported lumber and veneer were also demanded.

According to the MinIndustry, the state ownership shares in the furniture enterprises should be completely privatized or sold to private persons by the end of 1999. So far, out of a total 105 former state companies in the sector, 54 were privatized through mass privatization, 29 through cash privatization and 22 are in process of privatization.

Another sign of the gains made by the furniture industry is the attendance at the traditional furniture shows in 1998 which had 60% more exhibitors compared to 1997. The annual fall show was the largest of all so far and occupied the largest exhibition area compared to all other furniture and non-furniture shows.

Currently, there is an increasing interest for investment in furniture production by Italian companies through an European Investment Fund for encouragement of small and medium size enterprises. Several new joint ventures were opened in 1998 - Turkish Bulgarian JV for parquet production, and several Italian-Bulgarian furniture production facility.

The forecast for 1999 is for slight growth in consumption of higher quality wood products, mainly imported, to meet not only the export furniture market but also local demand of higher income consumers whose share should increase as the economy strengthens.

Table #1. Total and wooded forest area 1994-1998 (1998 data is AgOffice estimate) in thousand hectares.

	1994	1995	1996	1997	1998
Total forest area	3,876	3,875	3,878	3,878	3,878
Coniferous	1,310	1,304	1,293	1,285	1,280
Non-coniferous	2,566	2,571	2,585	2,593	2,598
Wooded forest area (excl. Area under pine-scrub)	3,332	3,332	3,332	3,332	3,332
Coniferous	1,164	1,158	1,144	1,135	1,130
Non-coniferous	2,168	2,174	2,188	2,197	2,202
Afforestation	16	9	16	15	15

Table #2. Production 1995-1998 (preliminary statistical data) in thousand cub.m.

	1995	1996	1997	1998
All logs				
Softwood	1,028,000	1,018,000	1,038,000	1,034,000
Hardwood	1,130,000	1,173,000	1,170,000	1,163,926
Large-Size Logs				
Softwood	447,236	444,560	499,000	499,462
Hardwood	439,667	423,518	440,000	441,069
Boards				
Softwood	158,960	123,000	106,260	160,410
Hardwood	64,694	61,000	59,263	69,816
Total	223,654	184,000	165,523	230,226
Beams				
Softwood	14,832	16,000	7,321	N/A
Hardwood	5,688	4,000	2,942	N/A
Total	20,520	12,179	10,263	N/A
Particle board, sq.m.	6,884,282	N/A	4,059,570	N/A
Particle board, 1,000 cub.m.	110	90	65	58
Plywood	36,249	34,600	40,350	42,988
Venner,sq.m.	6,717,688	5,803,000	4,083,152	3,080,528
Parquet,sq.m.	558,000	301,000	162,000	177,000
Windows and doors,sq.m.	800,314	580,000	356,000	N/
Packaging				
Softwood	23,867	15,000	23,202	26,808
Hardwood	3,299	4,000	2,473	N/A

Table #3. Furniture Production 1995-1998 (preliminary statistical data) in numbers

	1995	1996	1997	1998
bed sets	33,682	30,299	17,584	18,191
corner beds	5,528	3,599	1,294	8,932
cabinets	62,176	38,231	N/A	58,975
non kitchen tables	46,072	38,615	20,858	27,058
kitchen tables	55,509	27,196	16,758	55,328
chairs	255,400	245,815	153,091	159,046
Furniture, wood (units)	116,629	89,270	56,748	78,517
Wood/textile (units)	44,116	39,347	18,838	N/A
Wooden houses, sq.m.	5,252	7,020	5,752	N/A

Table #4. Imports for the first nine months of 1998:

veneer logs	HS#4403	18,295 MT	US\$1.3 million
of which softwood	HS#4403 10,20	660 MT	US\$50,000
hardwood	HS#4403 91,92,99	17,544 MT	US\$1.2 million
Lumber	HS#4407	10,752 MT	US\$2.5 million
of which softwood	HS#4407 10	6,300 MT	US\$1.2 million
hardwood	HS#4407 91,92,99	1,000 MT	US\$290,000
Veneer	HS#4408	1,100 MT	US\$1.6 million
of which softwood	HS#4408 10	58 MT	US\$81,000
hardwood	HS#4408 90	526 MT	US\$858,000
Particle board	HS#4410	5,111 MT	US\$1.7 million
Fiberboard	HS#4411	5,010 MT	US\$2.0 million
Plywood	HS#4412	430 MT	US\$540,000

